

House File 2550 - Introduced

HOUSE FILE 2550

BY ISENHART

A BILL FOR

1 An Act relating to the production, processing, distribution,
2 and marketing of agricultural products, including by
3 providing tax credits and making appropriations.
4 BE IT ENACTED BY THE GENERAL ASSEMBLY OF THE STATE OF IOWA:

DIVISION I

BEGINNING FARMER TAX CREDIT PROGRAM

Section 1. Section 16.77, Code 2022, is amended by adding the following new subsection:

NEW SUBSECTION. 6A. "*Specialty crop*" means a commodity limited to fruits, vegetables, tree nuts, or horticulture plants that may be consumed by humans in an unprocessed state.

Sec. 2. Section 16.82, subsection 3, paragraph a, Code 2022, is amended to read as follows:

a. (1) In the case of an agreement on a fixed basis, in which an eligible taxpayer receives a fixed cash rent payment, the amount of the tax credit equals five percent of the amount of the fixed cash rent payment for each year.

(2) Notwithstanding subparagraph (1), for acres used to produce a specialty crop, the amount of the tax credit equals ten percent of the amount of the fixed cash rent payment attributable to those acres for each year. This subparagraph does not restrict an otherwise qualifying acre from including an actively managed pollinator habitat.

DIVISION II

RETIRED FARMER LEASE INCOME EXCLUSION

Sec. 3. Section 422.7, Code 2022, is amended by adding the following new subsection:

NEW SUBSECTION. 21A. a. Subtract, to the extent included, net income received by an eligible individual pursuant to a farm tenancy agreement covering real property held by the eligible individual for ten or more years, if the eligible individual materially participated in a farming business for ten or more years.

b. An individual who elects to exclude income received pursuant to a farm tenancy agreement under this subsection shall not claim any of the following in the tax year in which the election is made or in any succeeding year:

(1) The capital gain exclusion under section 422.7, subsection 21.

1 (2) The beginning farmer tax credit under section 422.11E.

2 c. Married individuals who file separate state income tax
3 returns shall allocate their combined annual exclusion limit
4 to each spouse in the proportion that each spouse's respective
5 net income from a farm tenancy agreement bears to the total net
6 income from a farm tenancy agreement.

7 d. The department shall establish criteria, by rule,
8 relating to whether and how a surviving spouse may claim the
9 income exclusion for which a deceased eligible individual would
10 have been eligible under this subsection.

11 e. Net income from a farm tenancy agreement earned,
12 received, or reported by an entity taxed as a partnership
13 for federal tax purposes, an S corporation, or a trust or
14 estate is not eligible for the election and deduction in this
15 subsection, even if such net income ultimately passes through
16 to an eligible individual.

17 f. Net income from a farm tenancy agreement earned,
18 received, or reported by an individual is not eligible
19 for the election and deduction in this subsection unless
20 the tenant-lessee is a person that meets the definition
21 of a qualified beginning farmer in section 16.77 and the
22 tenant-lessee is growing specialty crops as defined in section
23 16.77 on the land comprising the farm tenancy agreement.

24 g. For purposes of this subsection:

25 (1) "*Eligible individual*" means an individual who is
26 disabled or who is fifty-five years of age or older at the time
27 the election is made, who no longer materially participates in
28 a farming business at the time the election is made, and who,
29 as an owner-lessor, is party to a farm tenancy agreement.

30 (2) "*Farm tenancy agreement*" means a written agreement
31 outlining the rights and obligations of an owner-lessor and a
32 tenant-lessee where the tenant-lessee has a farm tenancy as
33 defined in section 562.1A. A "*farm tenancy agreement*" includes
34 cash leases, crop share leases, or livestock share leases.

35 DIVISION III

1 RETIRED FARMER CAPITAL GAIN EXCLUSION

2 Sec. 4. Section 422.7, subsection 21, Code 2022, is amended
3 by striking the subsection and inserting in lieu thereof the
4 following:

5 21. a. For purposes of this subsection:

6 (1) "*Farming business*" means the production, care, growing,
7 harvesting, preservation, handling, or storage of crops
8 or forest or fruit trees; the production, care, feeding,
9 management, and housing of livestock; or horticulture, all for
10 intended profit.

11 (2) "*Held*" shall be determined with reference to the holding
12 period provisions of section 1223 of the Internal Revenue Code
13 and the federal regulations pursuant thereto.

14 (3) "*Materially participated*" means the same as "*material*
15 *participation*" in section 469(h) of the Internal Revenue Code.

16 (4) "*Qualified beginning farmer*" means the same as defined
17 in section 16.77 who grows specialty crops as defined in
18 section 16.77.

19 (5) (a) "*Real property used in a farming business*" means
20 tracts of land not to exceed one hundred sixty acres in the
21 aggregate and the improvements and structures located on such
22 tracts which are in good faith used primarily for a farming
23 business. Buildings which are primarily used or intended for
24 human habitation are deemed to be used in a farming business
25 when the building is located on or adjacent to the parcel
26 used in the farming business. Land and the nonresidential
27 improvements and structures located on such land that shall
28 be considered to be used primarily in a farming business
29 include but are not limited to land, improvements or structures
30 used for the storage or maintenance of farm machinery or
31 equipment, for the drying, storage, handling, or preservation
32 of agricultural crops, or for the storage of farm inputs, feed,
33 or manure. Real property used in a farming business shall also
34 include woodland, wasteland, pastureland, and idled land used
35 for the conservation of natural resources including soil and

1 water.

2 (b) Real property classified as agricultural property for
3 Iowa property tax purposes, except real property described in
4 section 441.21, subsection 12, shall be presumed to be real
5 property used in a farming business. This presumption is
6 rebuttable by the department by a preponderance of evidence
7 that the real property did not meet the requirements of
8 subparagraph division (a).

9 (6) "*Retired farmer*" means an individual who is disabled
10 or who is fifty-five years of age or older and who no longer
11 materially participates in a farming business when an exclusion
12 and deduction is claimed under this subsection.

13 b. Subtract the net capital gain from the sale of real
14 property used in a farming business if all of the following
15 conditions are satisfied:

16 (1) The taxpayer has materially participated in a farming
17 business for a minimum of ten years and has held the real
18 property used in a farming business for a minimum of ten years.
19 If the taxpayer is a retired farmer, the taxpayer is considered
20 to meet the material participation requirement if the taxpayer
21 materially participated in a farming business for ten years or
22 more in the aggregate, prior to making an election under this
23 subsection.

24 (2) The real property used in a farming business by the
25 taxpayer is sold to a qualified beginning farmer.

26 c. A taxpayer who is a retired farmer may make, subject to
27 the limitations described in paragraphs "f" and "g", a single,
28 lifetime election to exclude all qualifying capital gains under
29 paragraph "b".

30 d. A taxpayer who is a retired farmer who elects to exclude
31 capital gains under paragraph "b" shall not claim the beginning
32 farmer tax credit under section 422.11E or the exclusion for
33 net income received pursuant to a farm tenancy agreement in
34 section 422.7, subsection 21A, in the tax year in which this
35 election is made or in any subsequent year.

1 e. A taxpayer who is a retired farmer who claims the
2 beginning farmer tax credit under section 422.11E shall not,
3 in the same year, make an election under this subsection. A
4 taxpayer who is a retired farmer and who elects to exclude
5 the net income received from a farm tenancy agreement under
6 section 422.7, subsection 21A, shall not, in the same tax year
7 or in any subsequent tax year, make the election under this
8 subsection.

9 f. Married individuals who file separate state income tax
10 returns shall allocate their combined annual net capital gain
11 exclusion under paragraph "b" to each spouse in the proportion
12 that each spouse's respective net capital gain bears to the
13 total net capital gain.

14 g. The department shall establish criteria, by rule,
15 relating to whether and how a surviving spouse may claim the
16 income exclusion for which a deceased retired farmer would have
17 been eligible under this subsection.

18 Sec. 5. REPEAL. 2018 Iowa Acts, chapter 1161, section 113,
19 is repealed.

20 Sec. 6. REPEAL. 2019 Iowa Acts, chapter 162, section 1, is
21 repealed.

22 Sec. 7. EFFECTIVE DATE. This division of this Act takes
23 effect January 1, 2023.

24 Sec. 8. APPLICABILITY.

25 1. This division of this Act applies to tax years beginning
26 on or after January 1, 2023.

27 2. This division of this Act applies to sales consummated on
28 or after the effective date of this division of this Act, and
29 sales consummated prior to the effective date of this division
30 of this Act shall be governed by the law as it existed prior to
31 the effective date of this division of this Act.

32 DIVISION IV

33 IOWA-GROWN FOOD TAX CREDIT

34 Sec. 9. NEW SECTION. 137F.20 Iowa-grown food tax credit.

35 1. As used in this section:

1 *a. "Food"* means raw, cooked, or a processed edible substance
2 intended in whole or in part for human consumption, that
3 is grown or processed in this state. *"Food"* may include
4 non-nutritional ingredients incapable of being grown or
5 processed in this state.

6 *b. "Food establishment"* means a grocery store, restaurant,
7 or other entity that sells food to the public and is licensed
8 in this state.

9 *c. "Nonprofit organization"* means public or nonpublic
10 schools, hospitals, religious institutions, dependent care
11 facilities, child care facilities, and any other nonprofit
12 organization in this state.

13 *d. "Wholesaler"* means a wholesale food business licensed in
14 this state.

15 2. *a.* An Iowa-grown food tax credit may be claimed by a
16 food establishment to reduce the taxes imposed under chapter
17 422, subchapters II and III, that is equal to one percent of
18 the sales price of food sold by the food establishment in this
19 state.

20 *b.* An Iowa-grown food tax credit may be claimed by a
21 wholesaler to reduce the taxes imposed under chapter 422,
22 subchapters II and III, that is equal to one percent of the
23 sales price of food sold by the wholesaler to a nonprofit
24 organization in this state.

25 Sec. 10. NEW SECTION. 422.120 Iowa-grown food tax credit.

26 The taxes imposed under this subchapter, less the credits
27 allowed under section 422.12, shall be reduced by an Iowa-grown
28 food tax credit authorized pursuant to section 137F.20.

29 Sec. 11. Section 422.33, Code 2022, is amended by adding the
30 following new subsection:

31 NEW SUBSECTION. 32. The taxes imposed under this subchapter
32 shall be reduced by an Iowa-grown food tax credit under section
33 137F.20.

34 DIVISION V

35 SPECIALTY CROPS — APPROPRIATIONS

1 Sec. 12. SPECIALTY CROPS — FISCAL YEAR 2022-2023.

2 1. Notwithstanding section 8.57G, subsection 2, there is
3 appropriated from the Iowa coronavirus fiscal recovery fund
4 to the economic development authority for the fiscal year
5 beginning July 1, 2022, and ending June 30, 2023, the following
6 amount, or so much thereof as is necessary, to be used for the
7 purposes designated:

8 For awarding grants to support persons engaged in
9 community-based initiatives to expand the capacity of
10 operations engaged in processing, distributing, and marketing
11 specialty crops:

12 \$ 10,000,000

13 2. The economic development authority shall provide a
14 preference to applicants who are beginning farmers or ranchers
15 or socially disadvantaged farmers or ranchers as defined in 7
16 U.S.C. §2279.

17 3. The economic development authority shall provide a
18 preference to applicants who have been awarded matching moneys
19 from entities other than state agencies receiving funding under
20 the American Rescue Plan Act of 2021, Pub. L. No. 117-2.

21 4. In establishing criteria to award grants and in selecting
22 applicants to receive grants under this section, the economic
23 development authority shall cooperate with the department of
24 agriculture and land stewardship.

25 5. a. As used in this section, "specialty crop" means a
26 plant or part of a plant having commercial value and intended
27 to be marketed or used for human consumption or as livestock
28 feed in a raw or unprocessed state.

29 b. "Specialty crop" does not include corn, grain sorghum,
30 oats, soybeans, or wheat.

31 Sec. 13. SPECIALTY CROPS — FISCAL YEAR 2023-2024.

32 1. Notwithstanding section 8.57G, subsection 2, there is
33 appropriated from the Iowa coronavirus fiscal recovery fund
34 to the economic development authority for the fiscal year
35 beginning July 1, 2023, and ending June 30, 2024, the following

1 amount, or so much thereof as is necessary, to be used for the
2 purposes designated:

3 For awarding grants to support persons engaged in
4 community-based initiatives to expand the capacity of
5 operations engaged in processing, distributing, and marketing
6 specialty crops:

7 \$ 10,000,000

8 2. The economic development authority shall provide a
9 preference to applicants who are beginning farmers or ranchers
10 or socially disadvantaged farmers or ranchers as defined in 7
11 U.S.C. §2279.

12 3. The economic development authority shall provide a
13 preference to applicants who have been awarded matching moneys
14 from entities other than state agencies receiving funding under
15 the American Rescue Plan Act of 2021, Pub. L. No. 117-2.

16 4. In establishing criteria to award grants and in selecting
17 applicants to receive grants under this section, the economic
18 development authority shall cooperate with the department of
19 agriculture and land stewardship.

20 5. a. As used in this section, "specialty crop" means a
21 plant or part of a plant having commercial value and intended
22 to be marketed or used for human consumption or as livestock
23 feed in a raw or unprocessed state.

24 b. "Specialty crop" does not include corn, grain sorghum,
25 oats, soybeans, or wheat.

26 EXPLANATION

27 The inclusion of this explanation does not constitute agreement with
28 the explanation's substance by the members of the general assembly.

29 DIVISION I — BEGINNING FARMER TAX CREDIT PROGRAM. This bill
30 amends the beginning farmer tax credit program which awards
31 a tax credit to a taxpayer who transfers agricultural assets
32 to a beginning farmer by an agricultural lease agreement. The
33 transferred agricultural assets include agricultural land and
34 improvements, as well as depreciable agricultural property.
35 If the taxpayer and beginning farmer enter into an agreement

1 on a fixed cash rent basis, the amount of the tax credit
2 equals 5 percent of the amount of the fixed cash rent payment
3 for each year of 15 years that the taxpayer is eligible to
4 participate in the program. The bill provides that in the
5 case of specialty crop acres, the amount equals 10 percent of
6 the amount of the fixed cash rent. The specialty crop acre
7 is limited to the production of fruit, vegetables, tree nuts,
8 dried fruits, or horticulture or nursery crops that may be
9 consumed in an unprocessed state.

10 DIVISION II — RETIRED FARMER LEASE INCOME EXCLUSION.

11 Commencing with tax years beginning on or after January 1,
12 2023, the bill excludes from the individual income tax a
13 retired farmer's total net income received pursuant to a
14 farm tenancy agreement covering real property held by the
15 retired farmer for 10 or more years, if the farmer materially
16 participated in a farming business for 10 or more years.

17 A retired farmer is not eligible for the lease income
18 exclusion unless the farmer is at least 55 years of age and no
19 longer materially participating in farming.

20 A retired farmer who elects to claim the lease income
21 exclusion is not eligible, in the tax year the election is made
22 or in succeeding tax years, to claim the capital gain exclusion
23 under Code section 422.7(21), as amended by another division of
24 the bill, or the beginning farmer tax credit.

25 The net income from a farm tenancy agreement earned by
26 an individual is not eligible for the exclusion unless the
27 tenant-lessee is a person that meets the definition of a
28 qualified beginning farmer and the tenant-lessee is growing
29 specialty crops on the land comprising the farm tenancy
30 agreement.

31 DIVISION III — RETIRED FARMER CAPITAL GAIN EXCLUSION. The
32 bill modifies the individual income tax capital gain exclusion
33 for the sale of real property used in a farming business which
34 otherwise would have gone into effect in tax year 2023, which
35 was enacted in 2018 Iowa Acts, chapter 1161, section 113,

1 and later modified in 2019 Iowa Acts, chapter 162. The bill
2 repeals both 2018 Iowa Acts, chapter 1161, section 113, and
3 2019 Iowa Acts, chapter 162, and creates a new capital gain
4 exclusion provision based upon the 2019 Iowa Acts, chapter
5 162, provisions, effective for tax years beginning on or after
6 January 1, 2023.

7 Under the provisions in 2019 Iowa Acts, chapter 162, section
8 1, which otherwise would have gone into effect during the 2023
9 tax year, a taxpayer who materially participates in a farming
10 business for at least 10 years and held real property used
11 in such a business for at least 10 years, may make a single
12 lifetime exclusion election from the individual income tax of
13 the capital gain of the sale of such property.

14 In order to be eligible for the capital gain tax exclusion on
15 the sale of real property used in a farming business, the bill
16 requires the sale of the real property to be 160 acres or less
17 and to be made to a beginning farmer as defined in Code section
18 16.77 who grows specialty crops.

19 The bill modifies the term "materially participated" in a
20 farming business to include a retired farmer if the retired
21 farmer materially participated in a farming business for 10
22 years or more, in the aggregate, prior to making the election
23 to exclude the capital gain of the sale of real property used
24 in a farming business.

25 Under the bill, a retired farmer is not eligible for the
26 capital gain exclusion if the retired farmer claims the
27 beginning farmer tax credit in the same tax year. A retired
28 farmer electing the capital gain exclusion is not eligible to
29 elect to exclude retired farmer lease income in the same tax
30 year or any succeeding tax year.

31 The division takes effect January 1, 2023, and applies to
32 sales consummated on or after that date.

33 For sales consummated prior to January 1, 2023, the existing
34 law in Code section 422.7(21) shall govern.

35 DIVISION IV — IOWA-GROWN FOOD TAX CREDIT. The bill creates

1 an Iowa-grown food tax credit that may be claimed by a food
2 establishment (e.g., a grocery store) equal to 1 percent of the
3 sales price of food sold. The tax credit may also be claimed
4 by a wholesaler equal to 1 percent of the sales price sold to a
5 nonprofit corporation.

6 DIVISION V — SPECIALTY CROPS — APPROPRIATIONS. The bill
7 appropriates moneys from the Iowa coronavirus fiscal recovery
8 fund to the economic development authority (authority) for
9 fiscal years 2022-2023 and 2023-2024 for purposes of supporting
10 persons engaged in community-based initiatives to expand the
11 capacity of operations engaged in processing, distributing,
12 and marketing a specialty crop. A specialty crop includes
13 a plant or part of a plant having commercial value which is
14 intended for human or livestock use but does not include corn,
15 grain sorghum, oats, soybeans, or wheat. In awarding moneys
16 to an applicant, the authority must provide a preference to a
17 beginning farmer or rancher or socially disadvantaged farmer
18 or rancher. The authority must also provide a preference to
19 an applicant who has been awarded matching moneys from an
20 entity other than a state agency receiving funding under the
21 federal American Rescue Plan Act. In establishing criteria to
22 award grants and in selecting applicants to receive grants, the
23 authority must cooperate with the department of agriculture and
24 land stewardship.